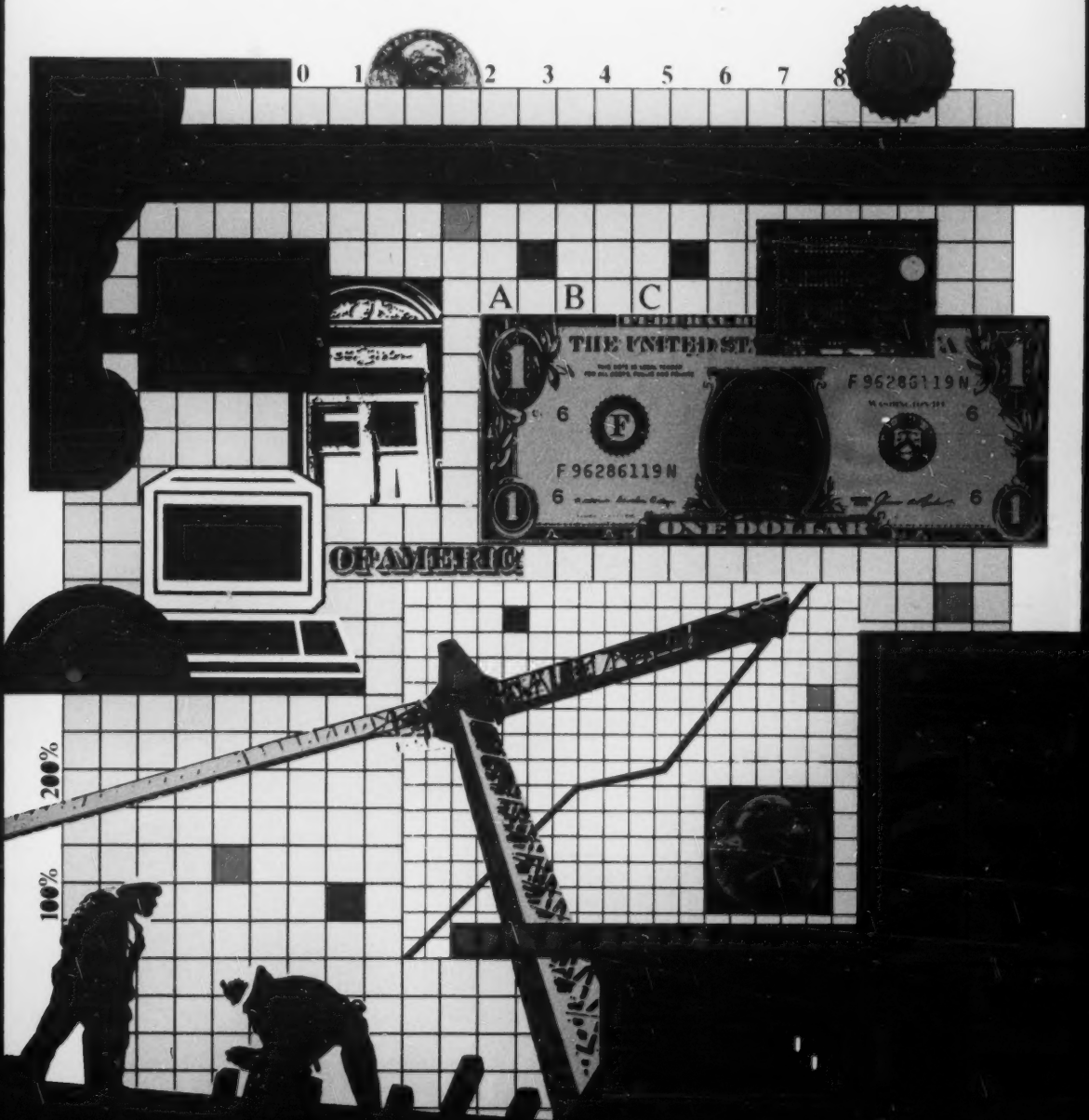


The NFIB Foundation

A-7815-1 A

QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

OCTOBER 1989



Quarterly Economic
Report for
Small Business

October 1989

Prepared by
The NFIB Foundation

NFIB.

NFIB QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS (REPORT NO. 65)

The 65th in series of quarterly economic reports based on survey data obtained during October 1989 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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ISSN #0362-3548

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SUMMARY OF RESULTS

by

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Small business economic activity did not change perceptibly between July and October, though the level of activity was generally favorable. Further, small business owners expected economic activity to modestly improve for the remainder of the year. The Index of Small Business Optimism edged back up to last January's level, principally as a result of a more positive outlook. Small business owners felt little change in their individual situations, but believed overall conditions had bottomed and were now on the upward path.

No factor dominated the third quarter. The most favorable news was that interest rates fell 6/10's of a percentage point. Yet, the frequency of capital expenditures only edged higher while the frequency of net inventory accumulations crept lower, leaving small business owners generally satisfied with current inventories. Sales, as measured by the Index of Small Business Sales, fell in the third quarter compared to the second though earnings, as measured by the Index of Small Business Earnings, rebounded after two declining quarters. New employment was moderate. However, the continuing high level of current job openings indicated small business owners were having difficulty locating enough qualified people. The frequency and rate of employee compensation increases did not change in the third quarter from the second; they have changed little in five quarters. Average selling prices proved more complicated. The frequency of selling price increases moved down compared to July, but they moved up compared to September. While the third quarter showed once again that the run-up in prices early in the year was a one-time phenomenon, the degree to which the frequency of average selling price increases will fall further before leveling out - if any - remained an open question.

Small business owners believed economic activity would increase in the fourth quarter. Differing from early in the year when their individual situations appeared better than their view of general conditions, the reverse was the case in October. The outlook, particularly Expected General Business Conditions, lead. But sales expectations also grew more favorable as did expected credit conditions. Plans tended to be flat, however. Planned capital expenditures were unchanged from July, though at a relatively high level. Planned inventory accumulations edged up from a near expansion low. Planned employment changes were stronger, but the difficulty locating people will make realizing them difficult. Moreover, plans to raise average selling prices slipped higher,

suggesting that inflation has stabilized at a rate greater than desirable. The regional Indices of Small Business Optimism showed a continued homogenization. The stark regional differences which have characterized small business conditions throughout much of the 1980s appeared to be narrowing.

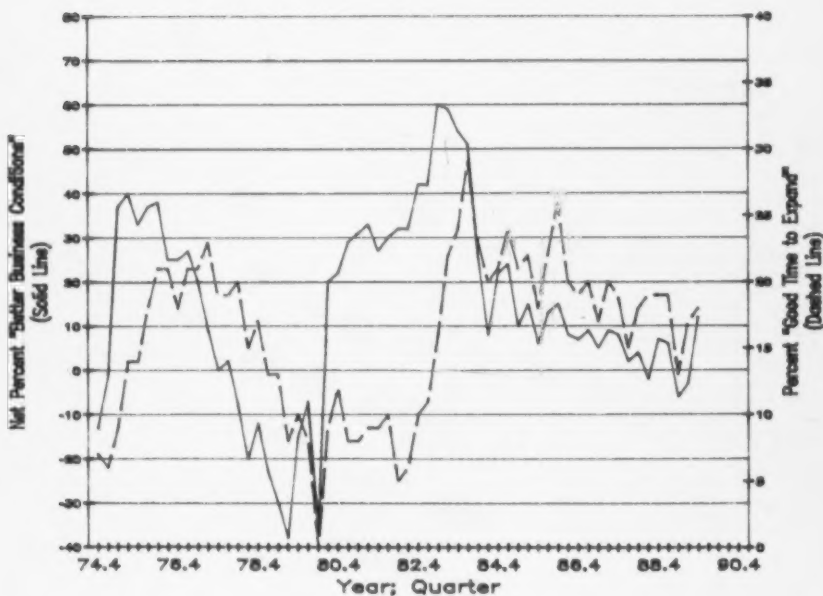
Outlook

The small business outlook continued to improve in October. Having reached a nine year low in April by one outlook measure and a six year low by another, the last two quarterly reports indicated rising sentiment among the nation's small business owners (Chart 1). Owners believed business conditions were reasonably good and that they would improve.

For the first time in two quarters, more small business owners believed that general business conditions would improve in the next three to six months than believed they would deteriorate. Twenty

Chart 1

EXPECTED GENERAL BUSINESS CONDITIONS AND THE CLIMATE FOR SMALL BUSINESS EXPANSION



(20) percent thought conditions would get better compared to 13 percent who took the opposite view (Table 1). Just six percent "Didn't Know," a decline in uncertainty from that occurring in the latter portion of 1988.

The rise from July's level was substantial and placed the relative measure of the small business outlook at its highest level in 13 quarters. The rebound suggests that small business owners have already seen the "soft landing" and are expecting another expansion, a view at odds with most economists. Yet, small business owners have been consistent. They have continued to be generally optimistic when the consensus view has ranged from moderate expansion to imminent recession.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE
NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Much Better	1	2	2	2	1	1	1
Better	19	19	17	20	17	14	19
Same	55	55	53	58	54	58	60
Worse	15	16	15	11	19	19	12
Much Worse	2	1	1	2	2	2	1
Don't Know	7	6	11	7	7	6	6
No Answer	1	1	1	*	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The Climate for Small Business Expansion moved higher on a seasonally adjusted basis. However, the absolute number believing it a good time for small business expansion was 15 percent, down two percentage points from July (Table 2). Despite the July to October seasonal increase, the absolute measure of small business outlook was not strong. Half of the quarterly readings over the last three years were higher and half were lower, and the last three years produced the lowest numbers in the expansion. Still, the trend in the climate for expansion is favorable and the outlook is much improved compared to April.

A more optimistic view of the climate for small business expansion cannot be tied to any particular factor. "General Economic Conditions" was cited most frequently to support whatever the view held (Chart 2). "Sales Prospects" was also important among those believing it a good time for expansion.

Neither financing nor expansion costs appeared to have much influence on small business owner views. Despite declining interest rates, somewhat fewer cited "Financing" as the most important reason for a favorable view in October than in July and about the same number offered it for a negative view. However, the number citing

Table 2

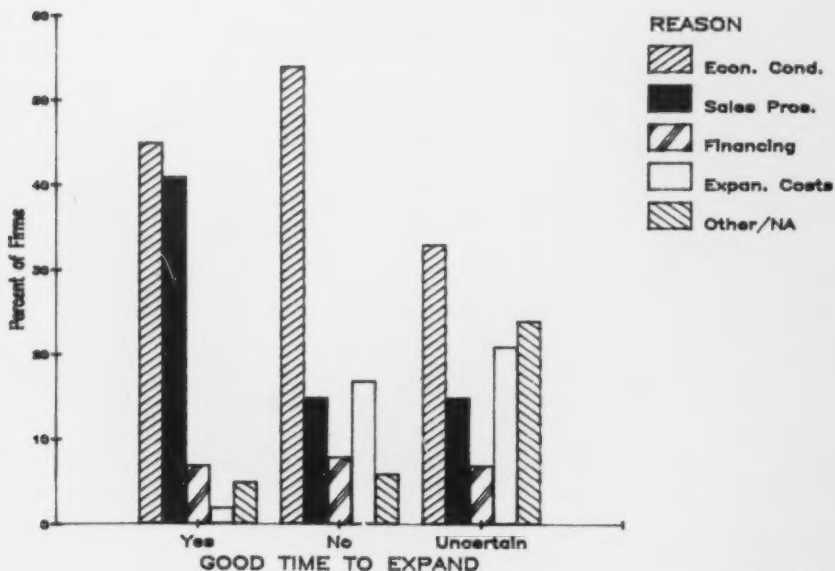
CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
Yes	16	16	16	17	16	17	15
No	53	49	47	44	48	45	46
Uncertain	31	34	37	38	35	37	38
No Answer	1	1	*	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

"Finance" among the "Uncertain" group was halved. The same pattern generally held with expansion costs. The only group affected was the "Uncertain." The number citing "Expansion Costs" rose four percentage points.

Chart 2

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION

Source: NFIB

Credit Conditions

Interest rates on short-term business loans declined between July and October. Still, rates in October, 1989, were more than half a percentage point higher than one year ago. While small business owners believed credit conditions would improve further in the next three months, they saw only modest change.

Interest rates on short-term loans (one year or less duration) declined 60 basis points from the prior quarter. Small business owners paid an average of 12.2 percent over the last three months. With over half of the short-term loans now tied to the prime rate or some other variable measure (Table 3), the summer's fall in the prime eventually was seen in lower small business rates.

Table 3
INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST RATE	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Under 10%	11	11	6	2	4	1	1
10%-12%	30	32	38	36	29	24	31
13%-15%	9	7	8	10	13	17	12
16% or More	4	3	2	3	3	2	5
Prime +1	26	27	27	28	25	29	31
Prime +2	17	20	18	18	21	23	18
Prime +3 or More	3	5	4	3	5	4	2
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	10.8%	11.1%	11.6%	12.0%	12.6%	12.8%	12.2%

*Less than 0.5%

Small business owners believed credit conditions were improving, though they were not as positive as the more favorable interest rate figure would suggest. A greater number still reported interest rates higher (10 percent) than lower (7 percent) (Table 4). However, October represented a substantial improvement from July and April. The same was true of loan availability. Seven percent reported the availability of loans "Harder" in the third quarter than in the second. October's figure was one percentage point better than July's and four percentage points better than April's (Table 5).

Regular borrowing activity remained modest. Just 36 percent classified themselves as regular borrowers (borrowing at least once a quarter) in October. The quarter's comparatively low figure (Chart 3) reflects both a reduction in inflation and generally favorable earnings. (See, Prices and Earnings.) High inflation forced small business to finance a constant amount of goods with more dollars. More favorable earnings (also tied to lower inflation) allowed small business owners to finance their purchases without the need to borrow.

Table 4

CURRENT INTEREST RATE COMPARED TO
INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
Much Higher	*	1	1	2	7	1	1
Higher	2	25	22	25	29	14	9
Same	14	11	13	9	4	12	18
Lower	23	1	1	1	*	7	7
Much Lower	1	*	*	*	*	*	*
Don't Know	1	1	1	1	1	1	1
Inapplicable (borrow infre- quently;no answer)	59	61	62	62	59	65	64
Total	100%	100%	100%	100%	100%	100%	100%

Table 5

AVAILABILITY OF LOANS
COMPARED TO PRIOR THREE MONTHS

LOAN AVAILABILITY	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
Easier	3	2	1	1	1	1	1
Same	29	27	28	27	27	25	26
Harder	7	8	7	8	11	8	7
Don't Know	2	2	2	2	2	1	2
Inapplicable (Don't Borrow; No Answer)	59	62	62	62	59	65	64
Total	100%	100%	100%	100%	100%	100%	100%

Small business owners believed that credit conditions would improve somewhat in the fourth quarter. Seven percent forecast that credit conditions would be "Harder" in the fourth quarter than in the third (Table 6). But the figure represented a one point improvement from July and a six point improvement from April. Seven percent is historically a moderate number.

Prices

Compared to July, October brought good news on inflation. Compared to September, October brought bad news. But whatever period used to compare, October's small business price report was substantially better than April's.

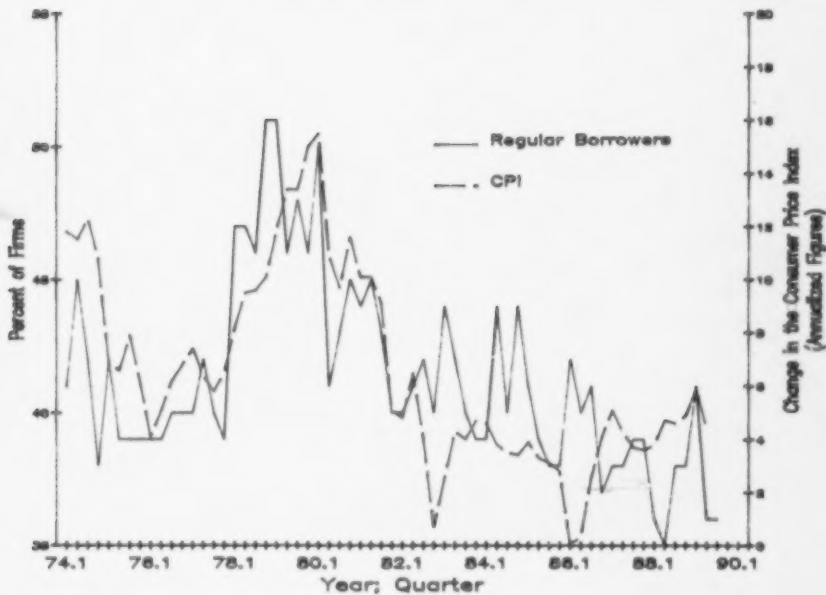
Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Easier	3	2	2	1	1	1	1
Same	26	24	24	24	23	23	24
Harder	9	9	9	9	13	8	7
Don't Know	3	4	3	4	4	3	4
Inapplicable (Don't Borrow; No Answer)	59	61	62	62	59	65	64
Total	100%	100%	100%	100%	100%	100%	100%

Chart 3

PERCENT OF "REGULAR" BORROWERS AND
THE CONSUMER PRICE INDEX



Twenty-eight (28) percent reported increasing prices the prior three months (Table 7). October represented a one percentage point improvement from July and an eight point improvement from April (Chart 4). However, October was a two percentage point deterioration from September.

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS
QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Lower Now	14	9	8	8	9	9	9
No Difference	63	63	59	58	52	59	61
Higher Now	19	23	29	29	36	29	28
Less than 1%	1	1	*	1	*	1	1
1.0-1.9%	2	3	4	4	4	3	4
2.0-2.9%	3	4	4	5	5	5	5
3.0-3.9%	2	3	5	4	5	4	3
4.0-4.9%	3	2	4	4	5	4	4
5.0-7.9%	4	4	6	6	9	6	6
8.0-9.9%	1	1	1	1	2	1	1
10% or More	2	4	4	3	4	4	3
No Answer	1	1	1	1	2	1	1
No Answer	4	5	4	5	3	3	2
Total	100%	100%	100%	100%	100%	100%	100%

* Less than (.) %

October's numbers brought the frequency of small business price increases down to a level typical of 1988. Eight of the 12 months last year produced a 28 percent figure. However, the 1988 level and the current one are generally the highest since the early 1980s.

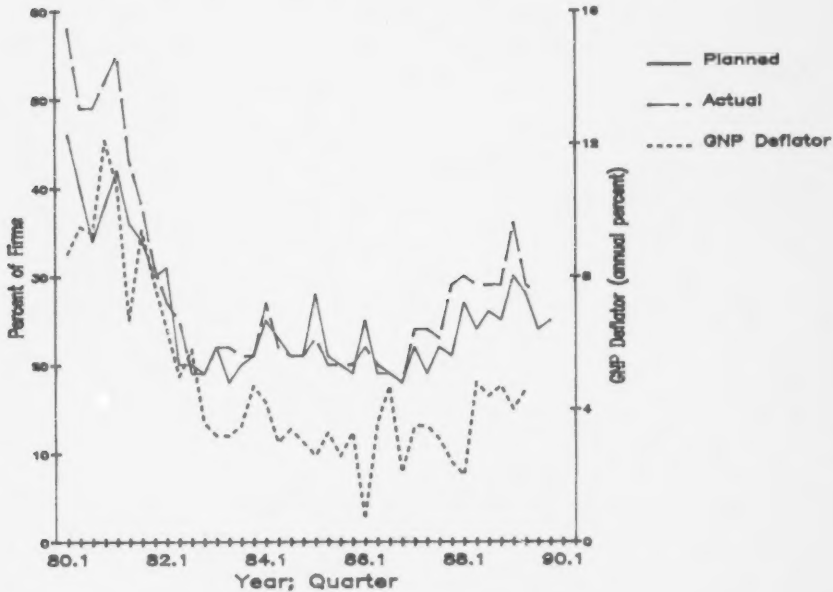
The inflation rate probably will not improve in the next three months, either. Twenty-five (25) percent planned price increases in the next three months (Table 8), suggesting an inflation rate of between four and four and one-half percent. But the number planning price increases in October was one percentage point higher than in July and a sharp four percentage point increase from September. As a result, the trend which has been clear since early in the year is now clouded.

Compensation

The rate of employee compensation increase has been higher in 1989 than at any point in the expansion. However, compensation increases appeared moderate and have not been the major factor driving prices upward. Small business owners did not plan to increase the frequency of average compensation increases in the next three months either, though government mandated increases will make them difficult to avoid.

Chart 4

THE FREQUENCY OF PLANNED AND ACTUAL
PRICE INCREASES



Twenty-six (26) percent reported raising employee average compensation over the last quarter (Table 9). The average increase among those raising compensation was 5.7 percent. The former was the same as in July and the latter a bit lower. In fact, four of the last five quarters produced 26 percent with average compensation increases. The 1986 quarterly average was only 20 percent.

The number planning to raise average employee compensation over the next three months rose 2 percentage points to 20 percent (Table 10). The average increase among those planning increases was 5.6 percent. These data suggest small business owners planned no departures from the current level of compensation increases. However, a large increase in FICA taxes scheduled for January and minimum wage boosts (in April) will almost certainly undermine these plans. A timing problem may cause these looming increases not to be factored in. The annual spike in compensation plans occurs in January rather than in October. But it is likely that many are currently unaware of the mandated increases (or have not yet focused on them) and their impact on average employee compensation.

Table 8
PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Lower	4	3	3	2	3	3	3
No Change	60	56	56	49	51	59	56
Increase	18	21	25	30	28	24	25
Less than 1%	1	1	*	*	*	*	1
1.0-1.9%	2	1	3	3	3	3	2
2.0-2.9%	3	4	4	4	5	4	4
3.0-3.9%	2	3	4	4	4	3	3
4.0-4.9%	2	2	3	4	4	3	4
5.0-7.9%	3	6	7	9	7	6	6
8.0-9.9%	1	1	1	1	1	1	1
10% or More	2	2	3	3	3	3	3
Don't Know	2	1	*	3	1	1	1
Don't Know	14	14	12	13	14	12	14
No Answer	4	6	4	6	4	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 9
CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION CHANGE	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Increased	18	22	26	24	26	26	26
1-2%	2	3	3	3	3	4	4
3-4%	5	5	8	7	7	6	8
5-6%	5	7	7	7	7	9	7
7-8%	2	3	3	3	3	3	3
9-10%	2	2	2	2	3	3	2
Over 10%	1	1	2	5	2	1	2
No Answer	1	1	1	*	1	*	*
Same	72	70	67	69	68	67	68
Decreased	2	1	1	1	1	1	*
No Answer	8	7	6	6	5	6	6
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	6.0%	5.9%	5.8%	5.9%	5.9%	6.0%	5.7%
All Firms	1.1%	1.3%	1.5%	1.4%	1.5%	1.5%	1.5%

* Less than 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION CHANGE	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Increase	16	19	21	24	22	18	20
1-2%	2	2	2	2	2	2	2
3-4%	5	6	7	7	6	6	5
5-6%	5	7	7	9	7	6	7
7-8%	2	1	1	2	2	2	2
9-10%	1	1	2	2	2	1	2
Over 10%	*	1	1	1	1	*	1
Don't Know	1	1	1	1	1	*	1
No Answer	*	*	*	*	1	1	*
Same	67	67	66	63	66	69	65
Decrease	2	1	1	1	*	1	1
Don't Know	11	9	10	9	10	9	11
No Answer	4	4	2	3	2	3	3
Total	100%	100%	100%	100%	100%	100%	100%
<u>AVERAGE INCREASE</u>							
Firms Increasing	5.6%	5.5%	5.4%	5.9%	5.8%	5.6%	5.6%
All Firms	0.9%	1.1%	1.1%	1.4%	1.3%	1.0%	1.1%

*Less than 0.5%

Sales

Small business sales have held up well over the last three to four years. The trendline has been flat, though at a relatively high level. However, about one in ten small business owners still considers "Poor Sales" his single most important problem. (See, Single Most Important Problem.)

Thirty-three (33) percent reported higher sales in the third quarter than in the second compared to 23 percent who reported them lower (Table 11). However, the Index of Small Business Sales (seasonally adjusted) fell in October (Chart 5). The decline from July was not sharp, but it represented the third consecutive quarterly fall. Sales appeared weaker than throughout most of the expansion.

Sales expectations have been trending slightly downward over the last three years. In October, however, they bucked the trend and moved upward on a seasonally adjusted basis. Forty-three (43) percent expected sales to rise in the fourth quarter compared to the third while 26 percent expected them to decline (Table 12). Small business expectations suggested that Christmas sales will be healthy though not spectacular.

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR
QUARTER'S DOLLAR SALES VOLUME

DOLLAR SALES VOLUME	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Much Higher	2	3	3	4	3	3	2
Higher	32	32	32	29	26	36	31
About the Same	41	44	45	40	40	40	43
Lower	20	17	17	22	25	17	20
Much Lower	3	2	2	3	5	3	3
No Answer	2	2	1	2	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Go Up A Lot	6	7	9	8	11	6	7
Go Up A Little	31	37	34	36	45	38	36
Stay the Same	28	25	26	29	22	32	27
Go Down a Little	23	21	20	18	14	16	21
Go Down a Lot	7	5	6	4	3	3	5
Don't Know	3	3	3	3	3	3	3
No Answer	2	2	2	2	2	1	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Earnings

The Index of Small Business Earnings began to recover in October following two sharp quarterly declines (Chart 5). Still, third quarter earnings, as measured by the Index, were the poorest excepting the prior quarter since 1985. Twenty-three (23) percent reported higher earnings in the third quarter than in the second compared to 32 percent who reported them lower for the same period (Table 13).

Sales volume was the reason most often cited for lower earnings (Table 14). The 45 percent mentioning sales volume was higher than typical for October. The same was true of factor costs which have generally risen over the last two years. These increases were offset by a decline in "Other/NA." Since "Other/NA" normally signifies that small business owners are experiencing no overriding economic problem, the data in Table 14 indicate that weaker sales and price pressures are currently causing more difficulties than they have in the last few years. However, neither sales nor prices approach the magnitudes they registered in the early 1980's.

Chart 5

INDICES OF SMALL BUSINESS
SALES AND EARNINGS



Table 13

NET EARNINGS COMPARED TO PRIOR
QUARTER'S NET EARNINGS

NET EARNINGS	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Much Higher	2	2	2	2	1	1	1
Higher	22	22	22	21	18	25	22
Same	43	44	46	43	41	41	44
Lower	26	25	25	27	32	28	28
Much Lower	5	3	4	4	5	4	4
No Answer	3	4	2	3	3	1	1
Total	100%	100%	100%	100%	100%	100%	100%

The distribution of reasons cited by those reporting higher earnings in the last quarter remained similar to that found in the last few Octobers. The number citing "Higher Prices" for their increased earnings remained stable. Eleven (11) percent offered "Higher Price," the same proportion as in October, 1988, and about the same as the prior two Octobers. Evidently, small business owners have not been expanding profit margins by raising prices. On the other hand, they do not appear to be getting a break on factor costs, either. Factor prices remained high enough so that profit margins were not expanded through reduced input costs.

Table 14
PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Sales Volume	53	59	58	60	59	56	57
Higher Prices	13	10	11	9	11	8	11
Factor Costs*	7	6	6	6	7	4	7
Seasonality	21	15	19	18	12	27	18
Other; NA	6	10	6	8	11	5	7
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER NET EARNINGS	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Sales Volume	41	41	39	40	39	42	45
Factor Costs*	21	23	28	21	25	27	27
Seasonality	16	16	17	24	20	15	15
Other; NA	22	20	15	15	16	16	13
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

Employment

Small business owners reported a large number of current job openings, moderate hiring plans, and only moderate employment increases in the third quarter. Labor shortages are having an impact. While small business owners would like to add to payrolls, the number of people available was impeding their efforts.

Sixteen (16) percent increased net employment in the third quarter compared to the second; 10 percent decreased it (Table 15). The average increase was 3.3 employees and the average decrease was 3.0. The result was a net .12 increase per firm, typical of third quarter increases since 1985.

Twenty-three (23) percent reported at least one current job opening (Table 16). The number was one percentage point lower than

July and two points less than last October. The data indicated that the unemployment rate will remain constant or even sneak up a tenth of a percent in the next quarter. October 1989's level of current job openings was similar to those registered throughout 1988 and 1989. The average number of firms with a current job opening in the last two years was 23 percent compared 16 percent in the prior four.

Sixteen (16) percent planned to make net additions to payrolls in the next three months compared to 10 percent who planned net

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Increased	16	16	16	14	14	21	17
Seasonal	5	5	5	5	5	11	6
Non-seasonal	11	11	11	9	9	10	11
Decreased	15	13	13	13	13	11	15
Seasonal	5	4	5	6	4	2	5
Non-seasonal	10	9	8	7	9	9	10
No Change	66	67	69	70	72	68	68
No Answer	3	4	2	3	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	4.1	4.0	3.6	3.9	3.6	4.2	3.3
Employees decreased per firm decreasing	3.4	3.9	3.7	3.7	4.2	3.1	3.0
Average net change per all firms	+1.5	+1.3	+1.0	+0.05	-.43	+0.53	+0.12

*Less than 0.5%

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Yes	17	21	25	24	23	24	23
Skilled Labor	12	14	16	15	15	17	15
Unskilled Labor	3	3	4	5	4	3	3
Both	2	4	5	4	4	4	5
No	80	77	74	75	76	75	77
No Answer	3	2	1	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

reductions (Table 17). Plans rose from July on a seasonally adjusted basis. The service sector, particularly the financial and professional services, will lead the way. Both sectors not only reported strong hiring plans, but infrequently reported plans to reduce their employment. The Mid-Atlantic and South Atlantic were the regions where hiring plans were the strongest.

Table 17
EXPECTED NET LABOR FORCE CHANGES
IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Increase	14	16	18	20	23	15	16
Keep the Same	75	75	69	69	69	74	73
Decrease	9	8	11	7	5	10	10
No Answer	2	1	2	4	3	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Inventory

Small business has kept a tight rein on its inventories throughout the expansion. They entered the fourth quarter reasonably pleased with their current situation, but will exercise considerable caution when adding new stocks.

The caution was evident in the modest net number accumulating inventories in the third quarter. Just 18 percent made net additions to inventories in the last three months compared to 16 percent reducing them (Table 18). However, reflective of slowing sales, net accumulations did not change satisfaction with current inventory levels. Two percent more owners felt their inventories were "Too Large" than felt they were "Too Low" (Table 19). The net -2 percent is a favorable number historically and indicates that on balance small business owners felt comfortable with the current situation.

Table 18
INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
Increase	21	20	20	17	20	20	18
Same	40	43	46	42	43	44	46
Decrease	18	16	14	19	17	15	16
Not Applicable	19	19	18	19	19	20	19
No Answer	2	2	2	3	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 19
CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
Too Large	12	10	10	12	11	12	12
About Right	55	57	58	55	56	55	54
Too Low	9	10	10	10	10	10	10
Not Applicable	21	21	20	21	21	19	21
No Answer	3	2	2	2	2	4	3
Total	100%	100%	100%	100%	100%	100%	100%

But while small business owners were comfortable with their current inventory levels, they planned to pare even more. Sixteen (16) percent planned net additions in the coming quarter while 17 percent planned net reductions (Table 20). This level of inventory plans was among the weakest of the expansion although it was a modest improvement from July.

Table 20
NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
Add	16	17	17	22	21	16	16
No Change	45	46	44	43	44	46	44
Not Decrease	14	17	12	12	12	15	17
Applicable	20	20	20	20	20	15	17
No Answer	3	3	2	3	3	8	6
Total	100%	100%	100%	100%	100%	100%	100%

Capital Expenditures

The frequency of capital expenditures increased one percentage point between July and October. Fifty-six (56) percent reported making one or more capital expenditures in the last six months (Table 21). Forty-six (46) percent reported expenditures for equipment and vehicles, modestly above the expansion norm. The frequency of investments in buildings and land was typical.

The number investing more than \$5,000 was 41 percent, down a percentage point from July and two percentage points from April. The proportion of capital outlays amounting to \$50,000 or more fell as well. Just 20 percent of all capital outlays reported in October were \$50,000 or more compared to 21 percent in July and 24 percent in April (Table 22).

Table 21

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
All Types+	55%	56%	55%	57%	57%	54%	56%
Equipment/ Vehicles	42	44	44	49	46	45	46
Add Buildings Improved	6	7	7	7	8	7	6
Buildings	16	16	18	14	16	15	16
Land	3	4	4	4	4	4	4

+Percent of firms making one or more capital expenditures

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
Under \$1	7	8	7	6	6	4	7
\$1 - 4	23	22	20	22	19	18	20
\$5 - 9	15	13	13	13	16	13	16
\$10 - 19	21	18	21	22	17	24	21
\$20 - 49	17	18	17	18	18	20	16
\$50 - 99	7	9	11	9	10	9	8
\$100 - 499	8	9	8	8	11	11	10
\$500 - 999	1	2	2	1	2	*	2
\$1,000 or More	2	1	1	1	1	1	*
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Planned capital outlays on a seasonally adjusted basis were unchanged in October from April and July, and were just three points below the survey record levels recorded in January and October, 1988. Thirty-one (31) percent planned one or more capital outlays in the next three to six months (Table 23). The caution recently shown on inventory accumulations has not been evident on capital outlays suggesting that many capital outlay projects are designed to improve efficiency rather than expand capacity. A decline in interest rates should spur this type of investment while ebbing sales should inhibit expenditures for expansion.

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1986	1987	1988	1989			
	<u>OCT</u>	<u>OCT</u>	<u>OCT</u>	<u>JAN</u>	<u>APR</u>	<u>JUL</u>	<u>OCT</u>
Yes	29	30	34	36	33	31	31
No	54	55	50	48	52	55	54
Don't Know	12	12	11	13	11	11	12
No Answer	5	3	5	3	4	3	3
Total	100%	100%	100%	100%	100%	100%	100%

Single Most Important Problem

The distribution of the single most important small business problem has not noticeably changed over the last few years. Since 1984, "Taxes" has been most frequently cited as the single most important problem. Twenty-two (22) percent mentioned "Taxes" in October, one percentage point more than in July and one percentage point less than one year ago (Table 24).

"Government Regulation/Red Tape" received the second most cites - 16 percent. Owners of transportation/communication, agricultural, and professional service firms were the most likely to list the problem. Three different problems were cited with third greatest frequency as the single most important problem. Eleven (11) percent mentioned each "Poor Sales," "Competition from Large Firms," and "Quality of Labor." The frequency with which all four have been cited has not changed over the last few years, more evidence of the relative stability of economic conditions since the mid-1980s.

The only significant movement in the single most important problem data between July and October occurred in the number citing "Interest Rates & Financing." Seven percent cited the problem in October, down three percentage points from July and four from April. The decline followed the path taken by interest rates over the period. (See, Credit Conditions.)

Four percent believed "Inflation" to be their single most important problem. While two percentage points higher than last October, the month's level not only fell just two points above the survey record low but also showed no change from July. Inflation was no serious problem to most small business owners.

Index of Small Business Optimism

The Index of Small Business Optimism moved higher in October on a seasonally adjusted basis. The Index rose from 99.8 in July to 102.1 (100=1978) (Table 25), though it was lower than September's level. Chart 6 demonstrates how well small business owners believed the economy was holding up. They saw no evidence of an approaching recession.

Table 24
SINGLE MOST IMPORTANT PROBLEM

Table 24
SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High		Prior Low		JAN		1989 APR		JUL		OCT	
	Date	%	Date	%	Rank	%	Rank	%	Rank	%	Rank	%
Taxes	7/88+	25	10/74	8	1	22	1	22	1	21	1	22
Inflation	10/74	41	10/87+	2	8	3	8	4	8	4	8	4
Poor Sales	10/82	23	1/75+	1	4	10	4	10	3	10	3	11
Interest Rates & Financing	4/82+	37	7/77	4	6	9	3	11	3	10	6	7
Cost of Labor	7/77	9	7/82	2	7	5	7	7	7	7	7	6
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	16	2	16	2	17	2	17
Competition from Large Business	10/76	13	4/80+	4	3	12	5	9	3	10	3	11
Quality of Labor	10/88+	12	1/83+	3	4	10	5	9	3	10	3	11
Shortage of Fuel Material, Goods	1/74	23	1/89+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	13	-	12	-	11	-	11
Total					-	100	-	100	-	100	-	100

* Less than 0.5%

+ Most recent

Table 25
INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX COMPONENTS	1986	1987	1988	1989			
	OCT	OCT	OCT	JAN	APR	JUL	OCT
General							
Expectations ¹	105.0	107.5	107.3	110.5	110.3	107.8	108.3
Current Status ²	100.0	105.7	106.3	104.3	101.3	106.0	104.4
Spending Plans ³	108.7	112.0	113.7	119.7	120.0	112.3	112.0
Index*	105.2	108.3	103.7	111.4	110.5	108.6	108.1
Index (1978=100)+	99.5	102.3	102.9	102.8	99.5	99.8	102.1

*Index numbers

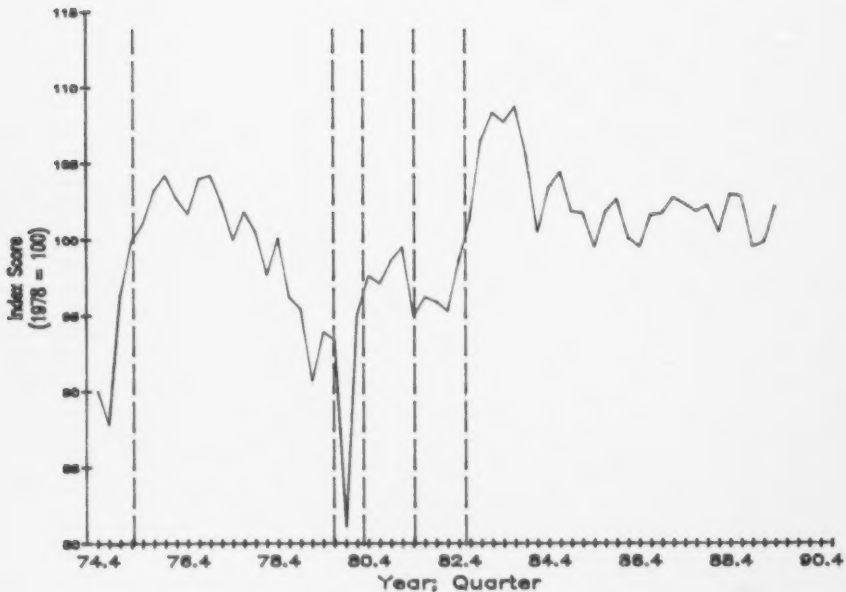
+Seasonally Adjusted

¹Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions

²Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings

³Plans to Hire, Make Capital Expenditures, Add to Inventories

Chart 6
INDEX OF SMALL BUSINESS OPTIMISM



Regional Conditions

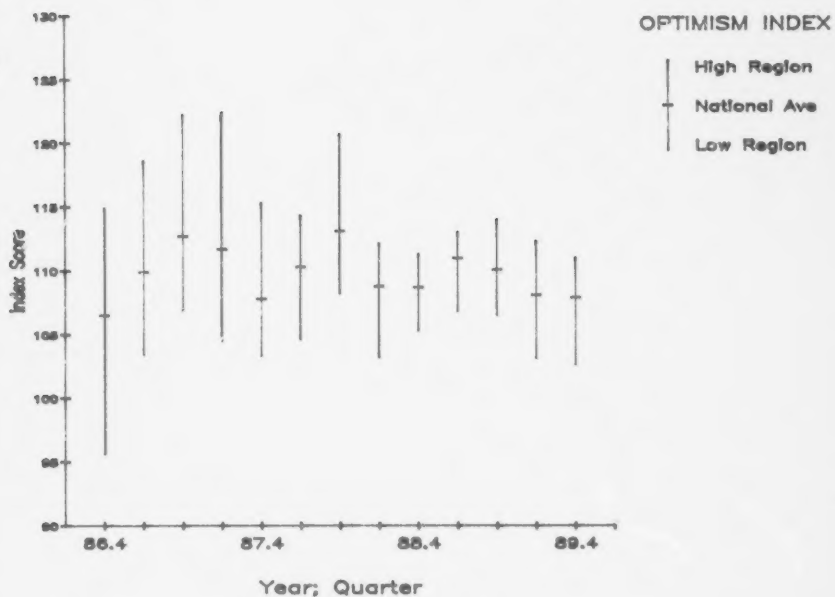
Regional differences in small business conditions continue to be a major theme of these reports. October was no different. The regional Indices of Small Business Optimism ranged from the Pacific's 111.0 to the East South Central's 102.6. Three regions produced indices above the national average - Pacific, Mid-Atlantic and South Atlantic. In fact, the Mid-Atlantic region almost caught the Pacific which would have made it the nation's most optimistic for the first time since the survey began. Three regions were at the national average - Great Lakes, New England and Mountain. The remaining regions - Plains, West South Central and East South Central - fell below.

Regional differences have been narrowing, however. The extremes are no longer as great as they once were. Chart 7 illustrates the narrowing gap. Three years ago, the difference between New England which provided the highest index and the West South Central which provided the lowest was 20 index points. In October, the difference between highest and lowest regions was just over eight. These narrowing differences were the result of the more optimistic regions

and the more pessimistic regions moving toward the middle. The regions doing very well were not doing quite as well and those doing poorly were not doing quite as poorly.

Chart 7

HIGHEST, LOWEST AND AVERAGE OPTIMISM INDEX
SCORE BY REGION



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.)
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

	INDUSTRY									
SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms Oct 1989
Less than \$50,000	6	5	1	2	6	10	7	17	14	8
\$50,000-99,999	7	4	6	4	10	12	12	12	14	9
\$100,000-199,000	12	15	9	4	19	29	20	19	18	16
\$200,000-349,000	13	13	13	7	15	12	13	19	22	15
\$350,000-799,999	22	16	22	10	21	15	14	20	12	18
\$800,000-1,499,999	17	18	17	17	14	11	17	7	9	14
\$1,500,000-2,999,999	7	13	13	20	6	1	7	3	5	8
\$3,000,000 or more	14	14	19	33	8	9	6	3	5	11
Not Ascertained	2	2	*	3	3	1	4	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	243	256	54	135	495	81	141	243	140	1797
Percent of Firms	14	14	3	7	28	4	8	14	8	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

	INDUSTRY									
EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms Oct 1989
1	5	4	6	4	7	16	9	13	5	7
2	5	3	11	8	7	9	9	11	17	8
3 - 5	27	23	23	22	33	37	39	28	31	30
6 - 9	17	15	20	10	20	16	18	21	22	18
10 - 14	15	15	9	17	13	10	8	10	4	12
15 - 19	8	8	7	10	6	3	4	3	5	6
20 - 39	12	15	15	13	8	7	7	9	6	10
40 or more	10	16	9	14	5	2	3	5	9	8
No Answer	1	1	*	2	1	*	3	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please **circle** the appropriate answers or fill in the blanks.

1. What is your form of business organization?

☐ 1 Proprietorship

☐ 2 Partnership

☐ 3 Corporation

1

2. Please classify your major business activity using one of the categories of examples below. (If more than one applies, circle the one which contributes the most toward your gross sales or total revenues.)

☐ 1 Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, etc.)

☐ 2 Manufacturing and mining (including dairy processor, printer, publisher, etc.)

☐ 3 Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)

☐ 4 Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., etc.)

☐ 5 Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, etc.)

☐ 6 Agriculture, veterinarian, forestry, landscaping, fisheries, etc.

☐ 7 Financial, insurance, real estate, bank, savings & loan, etc.

☐ 8 Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service,

photographer, funeral director, rental agency, credit bureau, laundry, etc.

☐ 9 Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, etc.

☐ 10 Other (please describe) _____

2

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

☐ 1 Taxes

☐ 4 Interest rates & financing

☐ 8 Quality of labor

☐ 2 Inflation

☐ 5 Cost of labor

☐ 9 Shortage of fuels, materials or goods

☐ 3 Poor sales

☐ 6 Government regulation(s) & red tape

☐ 10 Other _____

☐ 7 Competition from large businesses

(please explain)

3

4. Do you think the next three months will be a good time for small business to expand substantially?

☐ 1 Yes

☐ 2 No

☐ 3 Uncertain

4

4a. Why? (Circle **ONE** answer — most important reason)

☐ 1 Economic conditions

☐ 3 Financing & interest rates

☐ 5 Other _____

☐ 2 Sales prospects

☐ 4 Cost of expansion

(please explain)

5

5. About the economy in general, do you think that six months from now general business conditions will be better than they are now, about the same, or worse?

☐ 1 Much better

☐ 3 About the same

☐ 5 Much worse

☐ 2 Somewhat better

☐ 4 Somewhat worse

☐ 6 Don't know

6

6. During the last 3 months or calendar quarter, what were your gross sales, or revenues?

☐ 1 Under \$12,500

☐ 3 \$25,000-49,999

☐ 5 \$87,500-199,999

☐ 7 \$375,000-749,999

☐ 2 \$12,500-24,999

☐ 4 \$50,000-87,499

☐ 6 \$200,000-374,999

☐ 8 \$750,000 or more

7

6a. During the last calendar quarter, was your dollar sales volume higher, lower, or about the same as it was for the quarter before?

☐ 1 Much higher

☐ 2 Higher

☐ 3 About the same

☐ 4 Lower

☐ 5 Much lower

8

6b. If higher or lower, by approximately what percentage?

☐ 1 Less than 6%

☐ 3 11%-15%

☐ 5 21%-25%

☐ 7 36%-50%

☐ 2 6%-10%

☐ 4 16%-20%

☐ 6 26%-35%

☐ 8 51% or more

9

7. Were your net earnings or "income" (after taxes) from your business during the last calendar quarter higher, lower, or about the same as they were for the quarter before?

☐ 1 Much higher

☐ 2 Higher

☐ 3 About the same

☐ 4 Lower

☐ 5 Much lower

10

7a. If higher or lower, by approximately what percentage?

☐ 1 Less than 6%

☐ 3 11%-15%

☐ 5 21%-25%

☐ 7 36%-50%

☐ 2 6%-10%

☐ 4 16%-20%

☐ 6 26%-35%

☐ 8 51% or more

11

- 7b. If higher or lower, what is the **most important reason**? (Circle only **ONE**)
- | | | | |
|--|---|--|----|
| ☐ Sales volume | ☐ Availability of materials | ☐ Financing costs | 12 |
| ☐ Labor costs | ☐ Received higher prices for your product or service | ☐ Usual seasonal change | |
| ☐ Cost of materials | | ☐ Other _____ | |
- (Specify)
8. Overall, what do you expect to happen to the real **volume** (number of units) of goods and/or services that you will sell during the **next three months**?
- | | | | |
|---|---|--|----|
| ☐ Go up a lot | ☐ Stay the same | ☐ Go down a lot | 13 |
| ☐ Go up a little | ☐ Go down a little | ☐ Don't know | |
9. How are your average selling prices now compared to three months ago?
- | | | | | |
|------------------------------------|--|-------------------------------------|-------------------------------------|----|
| ☐ Lower now | ☐ No difference | ☐ Higher now | ☐ Don't know | 14 |
|------------------------------------|--|-------------------------------------|-------------------------------------|----|
- 9a. If **higher or lower**, by what percent, on an average?
- | | | | | | |
|---------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|-------------------------------------|----|
| ☐ Less than 1% | ☐ 2.0-2.9% | ☐ 4.0-4.9% | ☐ 8.0-9.9% | ☐ Don't know | 15 |
| ☐ 1.0-1.9% | ☐ 3.0-3.9% | ☐ 5.0-7.9% | ☐ 10% or more | | |
10. In the **next three months**, do you plan to **change** the average selling prices of your goods and/or services?
- | | | | | |
|--|--|------------------------------------|-------------------------------------|----|
| ☐ Yes, raise prices | ☐ Yes, lower prices | ☐ No change | ☐ Don't know | 16 |
|--|--|------------------------------------|-------------------------------------|----|
- 10a. If raise or lower, by what percent, **on average**?
- | | | | | | |
|---------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|-------------------------------------|----|
| ☐ Less than 1% | ☐ 2.0-2.9% | ☐ 4.0-4.9% | ☐ 8.0-9.9% | ☐ Don't know | 17 |
| ☐ 1.0-1.9% | ☐ 3.0-3.9% | ☐ 5.0-7.9% | ☐ 10% or more | | |
11. How many employees do you have full and part-time **including yourself**?
- | | | | | |
|------------------------------|------------------------------|--------------------------------|-------------------------------------|----|
| ☐ One | ☐ 3-5 | ☐ 10-14 | ☐ 20-39 | 18 |
| ☐ Two | ☐ 6-9 | ☐ 15-19 | ☐ 40 or more | |
12. During the **last three months**, did the **total** number of employees in your firm increase, decrease, or stay about the same?
- | | | | |
|---|---|--|-------|
| ☐ Increased by _____ employee(s) | ☐ Decreased by _____ employee(s) | ☐ Stayed the same | 19-21 |
|---|---|--|-------|
- 12a. If the **total number** of employees increased or decreased, was this change due primarily to **seasonal factors** affecting your business?
- | | | |
|------------------------------|-----------------------------|----|
| ☐ Yes | ☐ No | 22 |
|------------------------------|-----------------------------|----|
13. In the **next three months**, do you expect to increase or decrease the total number of people working for you?
- | | | | |
|-----------------------------------|--|-----------------------------------|----|
| ☐ Increase | ☐ Keep the same | ☐ Decrease | 23 |
|-----------------------------------|--|-----------------------------------|----|
14. Do you have any job openings that you are **not** able to fill right now?
- | | | |
|---|--|----|
| ☐ Yes, for skilled labor | ☐ Yes, both skilled and unskilled labor | 24 |
| ☐ Yes, for unskilled labor | ☐ No | |
- 14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):
- | | | |
|--|---|----|
| ☐ Less than one month | ☐ Three months, but less than six months | 25 |
| ☐ One month, but less than three months | ☐ Six months or more | |
15. During the last three months, did you increase or decrease your inventories?
- | | | | | |
|-----------------------------------|---|-----------------------------------|--|----|
| ☐ Increase | ☐ About the same | ☐ Decrease | ☐ Not appropriate | 26 |
|-----------------------------------|---|-----------------------------------|--|----|
- 15a. If increase or decrease, by approximately what percent?
- | | | | | |
|---------------------------------------|----------------------------------|----------------------------------|--------------------------------------|----|
| ☐ Less than 6% | ☐ 11%-15% | ☐ 21%-25% | ☐ 36%-50% | 27 |
| ☐ 6%-10% | ☐ 16%-20% | ☐ 26%-35% | ☐ 51% or more | |
16. At the present time, do you feel your inventories are too large, about right, or inadequate?
- | | | | | |
|------------------------------------|--------------------------------------|----------------------------------|--|----|
| ☐ Too large | ☐ About right | ☐ Too low | ☐ Not appropriate | 28 |
|------------------------------------|--------------------------------------|----------------------------------|--|----|
- 16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?
- | | | | | |
|------------------------------|--|-----------------------------------|--|----|
| ☐ Add | ☐ Keep the same | ☐ Decrease | ☐ Not appropriate | 29 |
|------------------------------|--|-----------------------------------|--|----|

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid *three months ago*? 30
- | | | | |
|--|----------------------------------|---------------------------------------|--|
| ☐ 1 Much higher | ☐ 3 Same | ☐ 5 Much lower | ☐ 7 Inapplicable, do not borrow regularly |
| ☐ 2 Higher | ☐ 4 Lower | ☐ 6 Don't know | |

- 17a. Are these loans easier or harder to get than they were *three months ago*? 31
- | | | | |
|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------------|
| ☐ 1 Easier | ☐ 2 Same | ☐ 3 Harder | ☐ 4 Don't know |
|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------------|

- 17b. Do you expect to find it easier or harder to obtain your required financing during the *next three months*? 32
- | | | | |
|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------------|
| ☐ 1 Easier | ☐ 2 Same | ☐ 3 Harder | ☐ 4 Don't know |
|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------------|

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33-35

19. During the *last 6 months* has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)
- | | | |
|-----------------------|--------------------------------|---------------------------------------|
| Equipment, Vehicles: | ☐ 1 Yes | 36 |
| Additional Buildings: | ☐ 1 Yes | 37 |
| Improved Buildings: | ☐ 1 Yes | 38 |
| Additional Land: | ☐ 1 Yes | 39 |

- 19a. If *yes*, what was the *total cost* of these projects (i.e. total purchase price)? 40
- | | | |
|--|--|--|
| ☐ 1 under \$1,000 | ☐ 4 \$10,000-19,999 | ☐ 7 \$100,000-499,999 |
| ☐ 2 \$1,000-4,999 | ☐ 5 \$20,000-49,999 | ☐ 8 \$500,000-999,999 |
| ☐ 3 \$5,000-9,999 | ☐ 6 \$50,000-99,999 | ☐ 9 \$1 million or more |

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment? 41
- | | | |
|--------------------------------|-------------------------------|---------------------------------------|
| ☐ 1 Yes | ☐ 2 No | ☐ 3 Don't know |
|--------------------------------|-------------------------------|---------------------------------------|

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change *average* employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the *next three months*? 42
- | | | | |
|-------------------------------------|--|-------------------------------------|---------------------------------------|
| ☐ 1 Increase | ☐ 2 Keep the same | ☐ 3 Decrease | ☐ 4 Don't know |
|-------------------------------------|--|-------------------------------------|---------------------------------------|

- 21a. If Increase or Decrease, by what percentage on average? 43
- | | | | |
|---------------------------------|---------------------------------|-------------------------------------|---------------------------------------|
| ☐ 1 1-2% | ☐ 3 5-6% | ☐ 5 9-10% | ☐ 7 Don't know |
| ☐ 2 3-4% | ☐ 4 7-8% | ☐ 6 Over 10% | |

22. Over the *past three months*, did you change *average* employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)? 44
- | | | |
|--------------------------------------|--|--------------------------------------|
| ☐ 1 Increased | ☐ 2 Kept the same | ☐ 3 Decreased |
|--------------------------------------|--|--------------------------------------|

- 22a. If Increased or Decreased, by what percentage on average? 45
- | | | |
|---------------------------------|---------------------------------|-------------------------------------|
| ☐ 1 1-2% | ☐ 3 5-6% | ☐ 5 9-10% |
| ☐ 2 3-4% | ☐ 4 7-8% | ☐ 6 Over 10% |

23. Please indicate the geographical area that best describes the community in which your business is located. 46
- | |
|---|
| ☐ 1 A metropolitan/urban area (population of over 100,000 in city and immediate area) |
| ☐ 2 A small city (population over 15,000 but under 100,000 in city and immediate area) |
| ☐ 3 A rural area (population under 15,000 in city and surrounding communities) |